



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

FTR

### Testimony of the Connecticut Insurance Department

Before the  
Insurance and Real Estate Committee

Thursday, March 9, 2010

#### House Bill No. 5433 - An Act Adjusting Insurance Guaranty Fund Credits

Raised Bill 5433 - An Act Adjusting Insurance Guaranty Fund Credits is substantially similar to legislation that was considered last year at the request of the Connecticut Insurance Department. (HB 6278) The 2009 legislation died on the House Calendar.

Current law provides that insurance companies may offset their premium tax liability by 100% of the amount of assessments they pay to the Connecticut Insurance Guaranty Association ("CIGA") or to the Connecticut Life and Health Insurance Guaranty Association ("CLHIGA"). Raised Bill 5433 will adjust the premium tax offset to 50%.

This legislation will require insurers to share the economic loss associated with providing the insurance insolvency protection for consumers of insurance products as a cost of doing business. This concept is much like what exists for banking institutions which, as a cost of business, are required to pay the Federal Deposit Insurance Corporation for protection of customers' deposits at rates based on the assessable deposits and the risk category of the bank. As explained more fully below, Raised Bill 5433 will provide a greater economic stake for insurers with respect to the costs of the insurance guaranty associations, including a greater sensitivity toward expenditures each association authorizes, rather than simply passing 100% of such costs as a premium tax offset to state revenue that otherwise would be collected.

By way of background, CIGA was established in 1971 and for thirty years, the law provided a safety net for consumers of insolvent property and casualty insurers utilizing assessments paid by member insurers to fund CIGA protection. These guaranty association assessments were recouped in the premium rates insurers charged by the insurers without any premium tax offset. (Thirty-four states do not provide a premium tax offset for property and casualty guaranty associations.) However, in 2000, (during better economic times) the Connecticut legislature changed the CIGA Act to fully socialize the costs of guaranty association assessments by establishing a 100% premium tax offset with a right to transfer any premium tax credit to an affiliate. This same legislation in 2000 also changed the CLHIGA Act to provide a similar 100% premium tax offset for insurers writing life and health insurance in Connecticut.

CLHIGA was established in 1972 to serve as a safety net for consumers of insolvent life and health insurers utilizing assessments paid by member insurers to fund CLHIGA

benefits. Since its inception, CLHIGA member insurers were authorized to offset their premium tax with 50% of any assessment they pay to CLHIGA. Unlike CIGA members' property and casualty insurance premiums which are subject to adjustment at renewal for which CIGA assessments are based, CLHIGA's life insurance premiums, and premiums for certain forms of health insurance, cannot be changed on existing policyholders. Thus, it was recognized by the legislature in 1972 that recoupment of CLHIGA assessments by member insurers is virtually unattainable through existing policy premium rates and is impractical for building CLHIGA assessments into rates for future policyholders. Therefore, CLHIGA member insurers were granted the right to offset their premium tax liability by 50% of the amount of assessments they pay to CLHIGA for the protection of insureds.

Raised Bill No. 5433 will fairly balance the need to require insurers to share the costs of insolvency fund protection for the products they sell. Incidentally, it also will reduce the loss of state tax revenue associated with guaranty fund tax offsets if an insurance company were to become insolvent.

The Insurance Department appreciates the opportunity to comment on RB 5433.